STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 99-111

July 20, 2000

MAINE PUBLIC UTILITIES COMMSISION
Standard Offer Bidding Procedure

ORDER REGARDING STANDARD OFFER PRICES FOR CUSTOMERS IN BANGOR HYDRO-ELECTRIC COMPANY'S SERVICE TERRITORY

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

I. SUMMARY

Through this Order, we increase the standard offer prices for customers in Bangor Hydro-Electric Company's (BHE's) service territory to produce an additional $1 million in revenues.[1] This is an increase in estimated annual standard offer revenues of approximately 1.7%. The price change results from increases in the cost of providing standard offer service that BHE has incurred since standard offer prices were first set. Absent the price changes ordered herein, these cost increases, coupled with BHE's projected standard offer costs and revenues, would have resulted in an estimated undercollection of $1 million at the end of the current standard offer period (February 28, 2001).

II. BACKGROUND

On February 29, 2000, the Commission issued an order adopting BHE's strategy for acquiring power supply to serve standard offer load in its service territory. *Order Authorizing Bangor Hydro-Electric Company to Contract for Wholesale Power Supply and Establishing Standard Offer Prices,* Docket No. 99-111 (Feb. 29, 2000). Pursuant to this strategy, BHE entered into a wholesale supply contact to meet approximately 60% of the expected standard offer load. The remaining standard offer supply requirements would be met through the ISO-NE spot market. In the February 29th Order, the Commission also noted that conditions might change in such a way to make it necessary or desirable for BHE to reduce its reliance on the spot market as a supply source. Accordingly, we required BHE to file periodic reports on standard offer costs and revenues and provide updated recommendations on power supply as warranted.

In the February 29th Order, the Commission also administratively set standard offer prices for BHE customers. The Commission set prices at $.045/kWh for residential/small non-residential customers and adopted seasonally and time differentiated prices that averaged $.049/kWh for medium and large commercial and

[1] Chairman Welch dissents from this decision. See Attached Dissenting Opinion.

industrial customers. The Commission noted that it would monitor actual standard offer supply costs and consider changing standard offer prices if they did not reasonably reflect actual costs.

Consistent with the February 29th Order, BHE filed a report on June 5, 2000, identifying two conditions in the ISO-NE spot market that arose since it began supplying standard offer service. Specifically, BHE noted the problems and uncertainty in the installed capability (ICAP) market and the energy price spikes that occurred this past May 8th. BHE presented various options as alternatives to continued reliance on the spot market and as a means to reduce the exposure to high summer clearing prices.

On June 12, 2000, BHE filed two Agreements under protective order for Commission approval. BHE stated that the Agreements would provide energy to BHE during the summer months when spot market clearing prices are the highest and most volatile. By Order issued June 15, 2000, the Commission approved the two Agreements. On June 23, 2000, BHE filed a third Agreement under protective order for Commission approval. The third Agreement would further reduce exposure to high clearing prices this summer. By Order issued June 23, 2000, the Commission approved the third Agreement. The three Agreements in total were obtained for approximately $3 million.[2]

Based upon the Commission's February 29th Order and subsequent changes in market conditions and BHE's standard offer supply portfolio, on July 5, 2000, we sought comment on whether BHE's standard offer prices should be increased. Our July 5th request for comments noted that, when the $3 million cost of the three recent Agreements are included, BHE's projections indicate that standard offer costs would exceed revenues by $1 million dollars at the end of the standard offer period.[3]

III. COMMENTS

We received comments from BHE, the Public Advocate, the Industrial Energy Consumer Group, PPL EnergyPlus and Competitive Energy Services (CES).

BHE filed comments favoring an increase in standard offer prices at this time to reflect anticipated additional costs. BHE's preference is to collect costs caused by summer market conditions in August, or August and September, to match costs with revenues and to minimize the potential for customers to avoid the increased costs by leaving the standard offer.

The Public Advocate commented that any additional costs allocable to the residential and small non-residential standard offer class should be deferred until

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[2] This amount does not reflect potential savings from the Agreements.

[3] BHE's projections are based on last year's market clearing prices as a proxy for this year's prices.

standard offer rates are reset in February, 2001. This would avoid increasing BHE's rates which already exceed the rates of all other mainland electric utilities in the State. According to the Public Advocate, residential and small non-residential customers would ultimately pay the additional costs because they are likely to remain on the standard offer. For the medium and large non-residential customers, the Public Advocate recommends that, if possible, the additional costs from the three recent Agreements should be recovered prior to the end of the peak-period on August 31.

The IECG stated that, although significant standard offer deferrals should be avoided, standard offer prices should generally be stable and customers should have reasonable notice of price changes so they can make prudent market decisions. Specifically, the IECG recommended that any increase in cost be spread over the remaining standard offer period because it is unclear what will cause any eventual undercollection. To provide reasonable notice to customers, the IECG stated that standard offer prices should not be adjusted until September.

PPL commented that, in order to provide competition in Maine's electricity market, the standard offer rate should reflect as closely as possible the actual prices suppliers must pay. Thus, BHE's cost for the three recent Agreements should be reflected in standard offer rates. According to PPL, the price increase should occur immediately and costs should not be deferred for later recovery.

CES argued that BHE's projections of costs are likely understated in that they are based on last year's market clearing prices. Current conditions suggest market prices will be higher than BHE's projections. CES stated that standard offer rates should increase to avoid deferrals that would have to be recovered in the future. The increases should include the cost of the three recent Agreements as well as increases in the basic cost of energy throughout the rest of the standard offer period. However, CES proposed that only the medium and large class rates be increased to recover the shortfall, because residential and small commercial customers cannot devote substantial resources to understanding the market.

IV. DECISION

We conclude that standard offer rates for BHE customers should be increased as of August 1, 2000, to recover the $1 million shortfall projected to exist at the end of the standard offer period. We are aware that price increases place burdens on BHE's customers. However, to promote the development of a competitive electricity market in Maine, the price of standard offer service must reflect actual costs. To do otherwise would discourage competition and jeopardize the ultimate benefits intended by the restructuring of the industry. Additionally, avoiding rate increases now by deferring excess costs for later recovery does not eliminate the need for customers to pay those costs; customers simply pay the costs later in time.[4] Deferrals of excess costs do not

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[4] As is always the case with such deferrals, delaying the recovery of costs until a later time also creates the possibility that some of the costs will be borne by persons

protect customers from increased market costs and volatility; deferrals simply mask them.

For these reasons, we will adjust prices now so that standard offer rates are more reflective of the costs to provide the service.

Because of the uncertainties surrounding future prices in the regional markets, we will not now adjust standard offer rates based on speculation regarding the ICAP deficiency charge or forecasts of future energy clearing prices. We will instead focus on cost changes that have actually occurred since we initially set standard offer rates. As stated above, BHE recently entered three Agreements to reduce the exposure to high summer clearing prices. The cost of these three Agreements is approximately $3 million. This additional cost, combined with BHE's original cost projections, would result in a $1 million undercollection at the end of standard offer period. Accordingly, we conclude that standard offer rates should be increased to produce an additional $1 million in revenue, thereby avoiding this estimated undercollection.

Because the increase in BHE's standard offer costs were incurred to reduce the exposure to high summer clearing prices, customers taking standard offer during the summer should pay them. It may well be the case, however, that many customers in the large and medium classes will have the opportunity to leave the standard offer shortly after the summer period. For this reason, we require that the portion of the $1 million increase allocated to these customer classes be recovered over standard offer purchases in August and September. In contrast, customers in the residential and small commercial class are not likely to enter the competitive market in significant numbers before the end of the current standard offer year. Therefore, it is reasonable for the additional costs allocated to this class to be recovered over the remaining standard offer period, thus avoiding the confusion of substantial price hikes for a 2-month period.

To implement our decision, BHE should allocate the $1 million increase to the three standard offer classes based on relative kWh sales over the three summer months (June, July, August). BHE should use actual sales to the extent available and estimated sales where actuals are not yet available. The amounts allocated to the large and medium classes should be collected over their projected standard offer purchases for August and September, and the amount allocated to the small class should be collected over projected standard offer purchases from August through February. Within the medium and large standard offer classes, time of day rate components, a well as seasonal rates, should be increased by the same percentage.

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who were not customers when the service giving rise to the costs was provided, as well as the risk that some customers will bear costs that are not proportionate to the level of service they received.

BHE is directed to make a compliance filing containing the standard offer rates that result from this Order. The compliance filing should be submitted no later than July 24, 2000. Approval of the revised standard offer rates is delegated to the Director of the Technical Analysis Division.

Dated at Augusta, Maine, this 20th day of July, 2000.

BY ORDER OF THE COMMISSION

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Raymond J. Robichaud
Acting Administrative Director

COMMISSIONERS VOTING FOR: Nugent
Diamond

COMMISSIONER VOTING AGAINST: Welch: See Attached Dissenting Opinion

DISSENTING OPINION OF CHAIRMAN WELCH

I respectfully dissent from my colleagues' decision to raise the standard offer prices. I fully agree that, where there is a substantial risk of undercollection (where the utility is purchasing power for use by standard offer customers), we should take action promptly. I differ from the majority, however, in whether the modest undercollection now anticipated -- on the order of $1 million, or about 2% of BHE's total annual cost for providing standard offer service -- is enough to warrant imposing a near-term burden (albeit a modest one) on BHE's customers. In my view, $1 million is so far within the margin of error in any set of projections for the cost to BHE for acquiring power for the remainder of the year that I would spare customers the confusion, and inconvenience, of any "mid-course re-estimation."

I am in full agreement with the approach chosen by my colleagues for imposing the increase among the customer classes, and join in that portion of this order.